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ECONOMICS AND TRADE ALERT SERVICE 2/2005

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 **WORLD DEVELOPMENT REPORT 2005: A BETTER INVESTMENT CLIMATE FOR EVERYONE**
World Bank

“This 2005 World Development Report is about creating opportunities for people to escape from poverty and improve their living standards. It is about creating a climate in which firms and entrepreneurs of all types— from farmers and micro enterprises to local manufacturing concerns and multinationals— have opportunities and incentives to invest productively, create jobs, and expand, and thereby contribute to growth and poverty reduction. Expanding opportunities for people in developing countries is a pressing concern for governments and for the global community. Nearly half the world’s population lives on less than US\$2 a day, and 1.1 billion barely survive on less than US\$1 a day. Young people have more than double the average unemployment rate in all regions, and population growth will add nearly 2 billion more people to developing countries over the next 30 years. This year’s World Development Report, the 27th in the World Bank’s flagship series, looks at what governments can do to create better investment climates for their societies. Drawing on new research, including surveys of nearly 30,000 firms in 53 developing countries, other new data, and country case studies, it makes four main points:

- First, the Report emphasizes that the goal should be to create an investment climate that is better for everyone—in two dimensions. The investment climate should benefit society as a whole, not only firms.
- Second, the Report argues that efforts to improve the investment climate need to go beyond just reducing business costs.
- Third, the Report underscores that progress requires more than changes in formal policies. The gaps between policies and their implementation can be huge, with the vast informal economies in many developing countries providing the most palpable evidence.
- Finally, the Report reviews strategies for tackling such a broad agenda. It emphasizes that perfection is not required and that everything does not have to be done at once. But progress requires governments to address important constraints in ways that give firms the confidence to invest—and sustain a process of ongoing improvements.

Improving the investment climate is the first pillar of the World Bank’s overall development strategy. Full Text of Report available at:

http://siteresources.worldbank.org/INTWDR2005/Resources/complete_report.pdf [pdf format, 288 pages]
 Overview of Report available at:
http://siteresources.worldbank.org/INTWDR2005/Resources/FNL_WDR_SA_Overview6.pdf [pdf format, 32 pages]

WHAT DOES IT TAKE TO REALLY HELP THE POOR?

Baldacci, Emanuele, Et Al.

Finance & Development, Vol. 42, No. 2, June 2005, pp. 20-23

The authors note that spending on education and health can boost human capital in poor countries and help them to reach the Millennium Development Goals (MDGs), but only if governments are held accountable. The authors suggest growth policy strategies based on their study of the interactions between various combinations of social spending, governance and social development. Although not a panacea, they write, spending increases should be accompanied by efforts to improve both the efficiency and targeting of public spending. Social spending will be more effective in countries with better governance and lower levels of government expenditure since the marginal returns to social spending tend to decline for countries that already spend substantially in these areas, they explain. Full Text of Article available at:

<http://www.imf.org/external/pubs/ft/fandd/2005/06/baldacci.htm> [html format, 9 printed pages]

AID AND GROWTH: WHAT DOES THE CROSS-COUNTRY EVIDENCE REALLY SHOW?

Raghuram Rajan and Arvind Subramanian.

International Monetary Fund, June 2005 Publication

“The authors examine the effects of aid on growth-- in cross-sectional and panel data—and correct the bias that aid typically goes to poorer countries or to countries after poor performance. Even after this correction, we find little robust evidence of a positive (or negative) relationship between aid inflows into a country and its economic growth. We also find no evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others. Our findings, which relate to the past, do not imply that aid cannot be beneficial in the future. But they do suggest that for aid to be effective in the future, the aid apparatus will have to be rethought. Our findings raise the question: what aspects of aid offset what ought to be the indisputable growth enhancing effects of resource transfers? Thus, our findings support efforts under way at national and international levels to understand and improve aid effectiveness.” Full Text of Report available at:

<http://www.imf.org/external/pubs/ft/wp/2005/wp05127.pdf> [pdf format, 49 pages]

U.S. ECONOMY

2005 NATIONAL EXPORT STRATEGY

U.S. Department of Commerce, International Trade Administration

"There has never been a better time for U.S. companies to sell and invest abroad," says Secretary of Commerce Carlos M. Gutierrez in his introduction to the 2005 report of the federal government's Trade Promotion Coordinating Committee (TPCC). Among the reasons for this favorable export climate noted in the report are:

- newly negotiated and implemented free trade agreements — such as those with Chile, Singapore, Australia, and Morocco — that open new markets to U.S. exporters;
- organizational reforms and partnering initiatives at key federal export-promotion agencies that enhance their ability to aid U.S. exporters, especially small and medium-sized businesses;
- country- and issue-specific initiatives, such as those to protect intellectual property rights of U.S. companies.

In its three chapters, the 2005 TPCC report focuses on each of these factors. It also identifies areas of future growth for U.S. exports, highlighting seven key geographic markets and identifying industry sectors within them that are likely to experience export growth over the coming years. Full Text of Report available at:

<http://www.ita.doc.gov/media/Publications/pdf/nes2005FINAL.pdf> [pdf format, 53 pages]

SHIFTS IN U.S. MERCHANDISE TRADE 2004. U.S. International Trade Commission, 2005

This report provides analysis, data, and information resources showing competitive aspects of U.S. merchandise trade trends on a country and sector basis. It also demonstrates that the economic performance of the United States and all of its major trading partners improved in 2004, but the growth of the U.S. economy outstripped most of its partners'. As a result, the increase in U.S. demand for foreign goods exceeded the increase in foreign demand for U.S. products. Full Text of Report available at: <http://www.usitc.gov/tradeshifts/default.htm> [various html files]

RECENT SHIFTS IN FINANCING THE U.S. CURRENT-ACCOUNT DEFICIT. Congressional Budget Office (CBO) Issue Brief, July 12, 2005

"When the United States runs a current-account deficit, its spending exceeds its income. Such excess spending is possible only as long as foreigners finance the deficit. That financing is provided by net capital inflows—the total net purchases of U.S. assets by foreign entities, both private and governmental (or "official"). An increase in the supply of such financing helps widen the current account deficit by boosting the value of the dollar and the prices of U.S. assets (such as real estate, stocks, and bonds), thus enhancing the ability of U.S. residents to make purchases.¹ A decline in the supply of such financing has the reverse effect on the dollar, on U.S. asset prices, and on the current account." Full Text of Report available at: <http://www.cbo.gov/ftpdocs/65xx/doc6542/07-12-CurrentAccount.pdf> [pdf format, 6 pages]

OFF SHORING (A.K.A. OFFSHORE OUTSOURCING) AND JOB INSECURITY AMONG U.S. WORKERS

Linda Levine

Library of Congress. Congressional Research Service (CRS) Report. Updated May 2, 2005.

"Off shoring or offshore outsourcing is the term now being applied to describe the nascent practice among U.S. companies of contracting out the jobs of white-collar workers in service sector industries (as well as blue-collar workers' manufacturing jobs) to firms located beyond our borders. As often is the case with a potential trend, however, few facts are available; instead, anecdotal accounts and varying estimates have been trumpeted in the media." The coverage of this report includes both the size and definition of offshore outsourcing and short- and long-run labor market implications. Linda Levine is a Specialist in Labor Economics in the Domestic Social Policy Division at the Congressional Research Service. Full Text of Report available at:

<http://fpc.state.gov/documents/organization/46688.pdf> [pdf format, 23 pages]

FOREIGN DIRECT INVESTMENT IN U.S. ENERGY FOR THE YEAR 2003.

United States Department of Energy (DOE)

Energy Information Administration (EIA), 2005

This report provides an assessment of foreign ownership of energy assets in the United States. Section 657, Subpart 8 of the U.S. Department of Energy Organization Act (Public Law 95-91) requires an annual report to Congress which presents: "a summary of activities in the United States by companies which are foreign owned or controlled and which own or control United States energy sources and supplies"

EIA intends the information in this report for use by the U.S. Congress, Government Agencies, Industry Analysts, and the general public. Full Text of report available at: <http://www.eia.doe.gov/emeu/finance/fdi/index.html> [html format, 4 printed pages]

THE ECONOMICS OF NECESSITY: ECONOMIC REPORT OF THE PRESIDENT UNDERSCORES THE IMPORTANCE OF IMMIGRATION

Walter A. Ewing

American Immigration Law Foundation - Immigration Policy in Focus, May 2005.

The 2005 Economic Report of the President devoted an entire chapter to immigration as a driving force in the economy. It recognized that the outdated U.S. immigration system is in need of reform and proposes a new temporary worker program, however, the author believes that both current immigration policies and reform proposals fail to take into account that immigration has become the key to growth of the U.S. labor force and that immigrants provide a net fiscal benefit to the U.S. economy. Truly comprehensive immigration reform, he maintains, must entail creating a pathway to legal status for most of the undocumented immigrants already in the United States and expanding the avenues for permanent immigration, as well as crafting tougher wage and labor laws for all workers. Walter Ewing is a Research Associate with the Immigration Policy Center. Full Text of Report available at:

<http://www.aifl.org/ipc/economicsofnecessityprint.asp> [html format, 8 printed pages]

ECONOMIC FREEDOM OF NORTH AMERICA : 2005 ANNUAL REPORT

Amela Karabegovic and Fred McMahon

Fraser Institute, National Center for Policy Analysis

This is the third edition of the Annual Report, Economic Freedom of North America. The statistical results of this year's study persuasively confirm those published in the previous two editions: economic freedom is a powerful driver of growth and prosperity and those provinces and states that have low levels of economic freedom continue to leave their citizens poorer than they need or should be. Economic Freedom of North America rates economic freedom on a 10-point scale for two indexes. An all-government index captures the impact of restrictions on freedom by all levels of government. A sub national index captures the impact of restrictions by state or provincial and local governments. Economic Freedom of North America employs 10 variables in three areas:

1. Size of Government;
2. Takings and Discriminatory Taxation;
3. Labor Market Freedom.

Not only is economic freedom important for the level of prosperity, growth in economic freedom spurs economic growth. As expected, the impact of economic freedom at the all-government level is greater than the impact at the sub-national level since the first index captures a broader range of limitations on economic freedom than the second.

Full Text of Report available at:

<http://www.fraserinstitute.ca/admin/books/files/EFNA2005.pdf> [pdf format, 70 pages]

THE UNITED STATES CURRENT ACCOUNT DEFICIT AND WORLD MARKETS: ECONOMIC SCENARIOS.

Brookings Institution Publication, February 2005

The OECD projects the U.S. current account to be in deficit by US\$826 billion by 2006. "In 1990 the US current account was in surplus. This deterioration in the current account of the United States and accompanying deterioration in the trade balance is unprecedented. It is 'large absolutely, large relative to US GDP and large relative to the United States' small export base'. Financial markets are worried about how and when this imbalance in the world economy will resolve itself. In this issue we examine the main causes of this growing imbalance in the world economy, its sustainability and implications for major variables like real exchange rates and interest rates as the imbalance corrects itself, which it must do at some point." Full Text of Report available at: <http://www.brookings.edu/views/articles/mckibbin/200502.pdf> [pdf format, 8 pages]

TRADE

FREE TRADE AGREEMENTS: IMPACT ON U.S. TRADE AND IMPLICATIONS FOR U.S. TRADE POLICY.

William H. Cooper

Library of Congress. Congressional Research Service (CRS) Report, Updated June 24, 2005

Offers an engaging discussion of the full effect of Free Trade Agreements (FTAs) on the U.S. and International Economies. From the report: "FTAs are now a significant U.S. trade policy tool. Their rapid emergence raises some important policy issues for the 109th Congress as it considers implementing legislation and monitors negotiations as part of its oversight responsibilities: Do FTAs serve or impede U.S. long-term national interests and trade policy objectives? Which type of an FTA arrangement meets U.S.

national interests? What should U.S. criteria be in choosing FTA partners? Are FTAs a substitute for or a complement to U.S. commitments and interests in promoting a multilateral trading system via the World Trade Organization (WTO)? Experts differ sharply over these questions. This report will be updated as events warrant. Full Text of Report available at:

<http://fpc.state.gov/documents/organization/49097.pdf> [pdf format, 19 pages]

TOWARDS A NEW TRADE "MARSHALL PLAN" FOR LEAST DEVELOPED COUNTRIES.

Lakshimi Puri

United Nations Conference on Trade and Development (UNCTAD) 2005

At no time have our civilization and the principle of solidarity been tested more than at the present time when one sixth of the world's population lives in abject poverty and 50 countries – big and small – are categorized as least developed and caught in a seemingly endless poverty trap. This paper sets out a new and comprehensive vision for a trade-related support plan for LDC's, who at present are unable to profit from trade liberalization and beneficially integrate into the international trading system and the global economy. Drawing upon historical experience with the Marshall Plan where the U.S. reconstructed a war devastated Europe ground up, it calls for practical and concrete commitments, policies and measures in favor of LDC's. Its arguments rest essentially on three pillars of such a "Trade Marshall Plan for LDCs" and are described more fully in the think piece. Full Text of Report available at:

http://www.unctad.org/en/docs/ditctabpov20051_en.pdf

THE CRITICAL ROLE OF CAFTA IN A FREEDOM AGENDA FOR THE AMERICAS.

Daniel W. Fisk

The Heritage Foundation. May 13, 2005

CAFTA will help increase productivity and competitiveness in Central America and the Dominican Republic, resulting in more jobs and promoting long-term and self-sustaining growth. CAFTA will reduce the costs of doing business, lowering the costs of capital goods and inputs and making Central American and Dominican firms more competitive globally. Economists tell us that this should translate directly into higher rates of economic growth. Full Text of report available at:

<http://www.heritage.org/Research/TradeandForeignAid/hl879.cfm> [html format, 5 printed pages]

WORLD TRADE REPORT: EXPLORING THE LINKS BETWEEN TRADE, STANDARDS AND THE WTO.

World Trade Organization, July 2005

The report focuses on specific trade policy issues of current interest and reviews trends in international trade. The core topic addressed in the 2005 Report is the relationship between standards and trade. The Report also contains 3 shorter essays on the use of quantitative economic analysis in WTO dispute settlement proceedings, trade in air transport services, and off shoring services. Specific thematic areas of the report deal with: Standards in the multilateral trade system, mechanisms of WTO Dispute

Settlements, and the Economies of Standards and Trade. Full Text of this report available at:

http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report05_e.pdf [pdf format, 377]